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Build mixed-use without subsidy

By Bendix Anderson

Allendale, Mich. — The new loft apartments at Heritage Towne Square are affordable by choice, not regulation. Though the rents are moderate, the project received no government money.

The development will eventually add 63 inexpensive loft apartments and 47,900 square feet of new retail and office space to an old strip mall here. Heritage is designed to bring the beginnings of a downtown to a town that has none.

The town's public library is just across the street. The shopping center also already includes the only grocery store in town: a 30,000-square-foot Family Fare. The supermarket is attached to the old strip mall but has a different owner. There's also a branch bank at the shopping center, though the developer doesn't own that building either.

"It's kind of a stretch to call it a town center, but it's the best this town has," said Pat Gillespie, president of Gillespie Group, based in East Lansing, Mich., the project's developer.

The income from the project's retail space should act as a subsidy for the project's apartments. "The retail shouldered most of the price of the land," Gillespie said. The apartments can also share infrastructure, like parking spaces, with the retail.

Allendale is a small suburb of Grand Rapids, but the town is growing fast: Its population jumped from 11,000 to 15,000 in the last four years. That's

mostly because of the growth of Grand Rapids, where many Allendale residents go to work. Allendale is also growing because of Grand Valley State University, which was recently expanded and now has 2,200 graduate and undergraduate students. This growth should give Heritage an ample supply of residents.

The first phase's 43 apartments were just completed and workers are now building out the retail spaces below. Twenty-three new loft apartments

national restaurant chain, which will build an eatery to its own specifications.

The apartments began leasing in early March. Three months later, 33 of the 43 lofts had been rented. The 31,340 square feet of new retail space began leasing in April. At press time, about 7,500 square feet had been leased to tenants such as a spa, pizza place and financial adviser. Rents are about \$13 a square foot.

"Retail is slow," Gillespie said. "But



and 18,845 square feet of new retail space are in one new building, with 20 new lofts set over 12,495 square feet of new retail in a second building.

The project's next phase should break ground this year and will create a third building with 20 lofts and 12,495 square feet of retail. The developer also hopes to lease land at the site to a

it's going to come."

The old strip mall also includes 10,760 square feet of existing retail space, all still leased to the original tenants and producing income.

Gillespie contacted local experts, including area executives from the Steak 'n Shake chain of family restaurants, in addition to real estate brokers and the

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Chamber of Commerce to find out whether the local market needed the retail space at Heritage. The developer also asked the Chamber and the university what kinds of retail were most needed.

When Gillespie began construction, he thought that he had pre-leased more than half of the project's retail space.

"That was our market study: when you have a couple of leases in hand," Gillespie said. Unfortunately, a fitness club that had promised to rent 10,000 square feet went out of business.

Mixing residential and retail space often adds as much as 30% to the cost of a project. But the low-rise buildings at Heritage are relatively simple to construct, so that mixing uses did not add to the construction cost, Gillespie said.

Zoning variances

Even though the project had the support of local government, it still took some extra effort to get all the zoning variances needed.

Most building codes don't let developers build apartments over stores, so the project had to bend a host of local rules. For example, a project mixing residential and commercial space needs less parking because the two components can share parking spaces. To do that, the developers needed to convince the city that parking spaces are used by retail customers mainly in the daytime, while residents mostly need parking at night.

Fortunately, the town was very cooperative. "They were eager to see a fresh face on an old property that was seen as the center of town," said Bob Koch, of Fugleberg Koch Architects, the project designer.

The developer also had to mediate between retailers that wanted huge, strip-mall-style signs, and the township, which wanted the signs to stay small.

Building apartments over stores also required some careful design work. For example, the developer had to work around the wide vents from the

retail space that cut up through the residential space, and the retail space had to make room for stairways and pipes coming down from the apartments above.

Financing without subsidy

The project's first phase cost a total of \$8 million to build. The developer paid for that with a \$6.2 million construction loan provided by Huntington Bancshares, Inc., which owns the strip mall's branch bank. The five-year, floating-rate loan has an interest rate of 190 basis points over the London InterBank Offered Rate. The developer will pay only the interest on the loan for the first 18 months.

"Huntington is financing us, as they clearly have a pretty vested interest in what happens around their branch," said Rachel Michaud, vice president for Gillespie. The developer also put \$1.8 million of its own equity into the project.

Because the project received no government subsidy of any kind, the project has no rent or resident-income restrictions. Nonetheless, the apartments are quite affordable. Rents start at \$679 a month for an 874-square-foot, one-bedroom apartment and go up to \$999 a month for a 1,115-square-foot one-bedroom.

But a two-person household earning 60% of the median income for the Grand Rapids area, or about \$39,750 a year per Department of Housing and Urban Development calculations, would be able to afford a one-bedroom apartment at the Heritage while spending less than 30% of its income on rent.

The developer is considering eventually selling the project as condominiums priced at \$99,000 to \$115,000 apiece. At today's interest rates, those prices are also affordable to low-income homebuyers.

About 60% of the new tenants are students, mostly juniors, seniors or graduate students at Grand Valley. Many of the other tenants work at the university or in Grand Rapids, just 15 minutes away. ■